

DAVID PENNEY
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0001 FILE in

S0270093

S0270073

S0010056

S0010057

January 15, 2008

DOGM
1594 W N Temple
Suite 1210, POB 145801
Salt Lake City, UT 84114-5801
Attn: Darron Haddock / Jim Allen

Reply: Letter(s) 1/11/08 Subject: Deficient reclamation surety an reclamation contract, "White Tiger", "Pretty in Pink", "Lost Gems", "Sliver 3-4 S/001/057"

Dear Gentleman,

There is no deficiency in the reclamation surety, we are currently bonded for the amount of the disturbance that exists. Your letters to us are all stating that you are assuming that we would like to disturb 5 acres. That was never the intent. Our intent in the notice of Intent, is to keep all the sites under 5 acres, and not to bond for 5 acres, but only bond for what is disturbed. If at any time we intend to disturb more we will increase it to the appropriate bond amount.

As discussed at the informal meeting with Kay McIlff, our attorney, and Jim Allen, we would like to revise your reclamation contract anyway, because of the open-ended language it contains.

It is our understanding, from the time of your inter office memorandum, when the State took over the bonding responsibility it was not the intent of the State to duplicate pre existing expenses or paperwork that was previously performed by the BLM, instead the State agreed to basically regulate the existing bonding of small mines (anything under 5 acres). See 40-8-14(4).

"In determining the amount and form of the surety to be provided under this section, consideration shall be given to similar requirements made on the operator by landowner, governmental agencies, or others, with the intent that surety requirements shall be coordinated and NOT DUPLICATED."

In our case, this especially applies because most of the small mine sites have not had any additional disturbance by machinery since the BLM set the bond. This is due to seasonal fashion trends, and the ever-changing popularity of gemstone colors.

Please do not assume that we intend to disturb the 5 acres. We like to keep all the properties below this limit if possible.

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The following are our amendments as requested, please add them to the file:

White Tiger S/0270093

See BLM File for Bond Calculations for exact disturbance area. The mine project area will be less than 5 acres. Should the disturbance change, the calculation will be revised according to BLM calculations

Pretty in Pink S/0270073

See BLM File for Bond Calculations for exact disturbance area. The mine project area will be less than 5 acres. Should the disturbance change, the calculation will be revised according to BLM calculations

Lost Gems S/0010056

See BLM File for Bond Calculations for exact disturbance area. The mine project area will be less than 5 acres. Should the disturbance change, the calculation will be revised according to BLM calculations

Sliver 3-4 S/001/057

See BLM Map Calculations. It was confirmed that the road to the mine was a County RS2477 road and therefore the mine area is bonded correctly at 4.74 acres of disturbance. If this is not acceptable we will add the requested additional amount of the bond.

Should you have any further comments concerning these amendments, we look forward to your prompt reply this week by email, so that we may address these before your time requirement.

Sincerely,



David L. Penney
Penney's Gemstones LLC

CC: K.L. McIff
Jim Allen
Darron Haddock
Opie Abeyta
Jed Pearson
Penny Berry